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OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



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*Internal Audit Section*

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April 14, 2005

Samuel J. Simon  
Director of Public Safety  
City Hall  
1200 Market St. – Room 401  
St. Louis, MO 63103-2860

RE: Fiscal Management Process Review of Building Division – Permits and Fees  
(Project #2004-18)

Dear Mr. Simon:

Enclosed is a report of our fiscal management process review of the Building Division - permits and fees revenue, for the period July 1, 2003 through February 29, 2004. The objective of this review was to determine if the Building Division procedures for collection of applicable fees from issuance of various permits and Housing Conservation District Certificates of Inspection have adequate controls in place to provide reasonable assurance of:


- Compliance with applicable laws, regulations, policies, and procedures.
- The safeguarding of assets.
- The reliability and integrity of financial information.

Our fieldwork was substantially completed on April 30, 2004. Management responses to the observations and recommendations noted in the report were received on March 24, 2005 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

If you have any questions, please contact me at (314) 613-7410.

Respectfully,

  
Mohammad H. Adil, CPA  
Internal Audit Manager

Enclosure

cc: Ronald H. Smith, Building Commissioner  
Rita Kirkland, Director of Operations-Office of the Mayor  
Honorable Darlene Green, Comptroller



# CITY OF ST. LOUIS

*DEPARTMENT OF PUBLIC SAFETY  
BUILDING DIVISION*

*PERMITS AND FEES REVENUE*

*FISCAL MANAGEMENT PROCESS REVIEW*

*JULY 1, 2003 THROUGH FEBRUARY 29, 2004*

*PROJECT #2004-18*

*DATE ISSUED: APRIL 14, 2005*

*Prepared by:  
The Internal Audit Section*



## OFFICE OF THE COMPTROLLER

*Honorable Darlene Green, Comptroller*

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**DEPARTMENT OF PUBLIC SAFETY**  
**BUILDING DIVISION – PERMITS AND FEES REVENUE**  
**FISCAL MANAGEMENT PROCESS REVIEW**  
**JULY 1, 2003 THROUGH FEBRUARY 29, 2004**

**EXECUTIVE SUMMARY**

**Purpose**

We have completed a review of the Building Division Permits and Fees Revenue. Our purpose was to determine if the Building Division procedures for collection of applicable fees from issuance of various permits and Housing Conservation District Certificates of Inspection have adequate controls in place to provide reasonable assurance of:

- Compliance with applicable laws, regulations, policies, and procedures.
- The safeguarding of assets.
- The reliability and integrity of financial information.

**Conclusion**

The opportunity exists for the Building Division to make certain improvements in controls over revenue-related activities. The following are observations resulting from our review:

1. Opportunities to Improve Controls over Permit and Certificate Issuance
2. Opportunities to Improve Monitoring of Cash Receipts
3. Opportunities to Improve Segregation of Duties
4. Opportunity to Enhance Fee Collection Efficiency
5. Opportunities to Enhance Supervisory Review
6. Opportunities to Enhance Compliance with Permit Requirements
7. Opportunities to Develop or Improve Written Policies and Procedures
8. Inadequate Retention Period for Source Documents (Repeated)

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

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This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.



Mohammad H. Adil, CPA  
Internal Audit Manager

*April 14, 2005*

Date

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**INTRODUCTION**

**Background**

The Building Division was established by Article XIII, Section 15 of the St. Louis City Charter as a Division within the Department of Public Safety. The Building Division is responsible for the enforcement of all codes and ordinances regulating the protection of the public health, safety and welfare as related to the “mode or manner of construction and the materials to be used in the erection, alteration, repair, removal, or demolition of a building or structure, or the installation of service equipment, and the location, use, occupancy and maintenance of all buildings, structures or premises”.

The Building Division includes a Permit Section that issues building permits for new construction and for additions or alterations to existing buildings. The Permit Section also issues demolition permits, commercial occupancy permits, and Section 8 Housing occupancy permits. The Building Inspection Section of the Building Division inspects the results of construction work authorized by the building permits, as well as inspections to determine compliance of other buildings and structures with applicable building and occupancy codes. The Building Division has separate Plumbing, Mechanical Equipment, and Electrical Sections which issue permits for, and inspect the installation, repair and/or replacement of equipment and systems within their respective jurisdictions.

The Building Division also has a Housing Conservation Section which administers the housing inspection requirements of the City’s Housing Conservation District (HCD) program ordinances, and issues Certificates of Inspection to the owners of housing units, located in the designated districts, that meet the inspection standards.

The Building Division charges fees that are authorized by the ordinances establishing the City’s current Building Code, Electrical Code, Plumbing Code, Mechanical Code, and the Housing Conservation District program, in order to help defray the costs of performing the respective code enforcement functions included in those ordinances.

**Purpose**

The purpose of this review was to determine if the Building Division’s procedures for issuing and collecting fees for various permits (Building, Occupancy, Demolition, Electrical, Plumbing, and Mechanical), Plumbing Back Flow Test Reports, and for Housing Conservation District Certificate of Inspection, have adequate controls in place to provide reasonable assurance of:

- Compliance with applicable laws, regulations, policies, and procedures.
- The safeguarding of assets.
- The reliability and integrity of financial information.

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**INTRODUCTION**

The combined revenues for the above referenced fees per the City's General Ledger during the review period 7/1/03 - 02/29/04 totaled \$3,624,756. The combined G/L total of the fees for the fiscal year 7/1/02 - 06/30/03 was \$5,898,100.

**Scope and Methodology**

We confined the review to evaluating controls over fee revenues received for permits and Certificates of Inspection issued over the period July 1, 2003 through February 29, 2004. Our procedures included inquiries of management and staff, observation of relevant processes, and reviews for compliance with policies and procedures, as well as applicable laws and regulations. We performed limited tests of controls, followed up on prior audit observations and other procedures considered necessary. Our fieldwork was substantially completed on April 30, 2004.

**Exit Conference**

We conducted an exit conference at the Building Division on February 17, 2005. The Building Division was represented at the exit conference by Building Commissioner Ronald Smith, Executive Assistant Randall Mourning, Building Inspection Manager Frank Oswald, and Trades Group Manager Ted Steiling. The Internal Audit Section was represented by Audit Manager Mohammad Adil, Audit Supervisor Ishmael Ikpeama, and Auditor-in-Charge Don Curby.

**Management's Responses**

We received management responses to the observations and recommendations identified in this report from the Building Division on March 24, 2005. Those responses have been incorporated into this report.

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**OBSERVATIONS**

**Status of Prior Observations**

We followed-up on the following observations included in the Internal Audit Section Revenue report on Housing Conservation District Certificates of Inspection issued December 15, 1995.

1. Inadequate Control over Cash Receipt Forms:  
**Partially Resolved – See Current Observation #1.**
2. Inadequate Control over Mailed-in Cash Receipts:  
**Partially Resolved – See Current Observation #3.**
3. Inadequate Retention Period for Source Documents:  
**Not Resolved – See Current Observation #8.**
4. Inadequate Control over Issuance of Certificates of Inspection:  
**Partially Resolved – See Current Observation #1.**

**Summary of Current Observations**

The opportunity exists for the Building Division to make certain improvements in controls over fiscal-related activities. The following are observations resulting from our review:

1. Opportunities to Improve Controls over Permit and Certificate Issuance
2. Opportunities to Improve Monitoring of Cash Receipts
3. Opportunities to Improve Segregation of Duties
4. Opportunity to Enhance Fee Collection Efficiency
5. Opportunities to Enhance Supervisory Review
6. Opportunities to Enhance Compliance with Permit Requirements
7. Opportunities to Develop or Improve Written Policies and Procedures
8. Inadequate Retention Period for Source Documents (Repeated)

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.



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**DETAILED OBSERVATIONS, RECOMMENDATIONS**

**1. Need to Improve Controls over Issuance of Revenue-Generating Documents**

We noted the following conditions which present significant opportunities for improvements in control over revenue-generating documents:

- A. All permits and Housing Conservation District (HCD) Certificates of Inspection (COI) issued by the Building Division are computer-generated by the division's respective Data Flex permit and inspection or HCD-COI information systems. When a customer applies for a permit or certificate, a Building Division employee enters the information required for the application into the system. In most cases this information includes the fee to be charged in accordance with the division's authorized fee schedules. For permit applications, the system automatically assigns a sequential application number which will also be used as the permit number.

After the application has been approved (or for HCD-COI's, the inspection has been passed) and payment has been collected, an authorized employee prints the permit or certificate from the system and issues it to the customer.

In order to provide reasonable assurance that fee-generating documents are not improperly generated and issued, the computer system should include controls that effectively prevent and/or detect generation of permits or certificates of inspection for which the appropriate fees have not been collected and properly reported. However, the features of the Building Division's permit information system had not been developed for the purpose of establishing controls over fees earned and resulting cash receipts and we noted the following conditions during our review:

1. The Building Division's permit/inspection system would allow a signed-on user to both:
  - reprint copies of previously printed and issued permits, and
  - make repeated changes to the application records of previously issued permits.

Although the system provided a record of the permit reprints generated for each application, it did not provide any way to detect that changes had been

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**1. Continued...**

made to an application record if the user had restored the original information after printing an altered version of the permit.

2. The numerical sequence of application/permit numbers assigned by the Building Division's permit/inspection system ran continuously through all types of applications entered by any of the sections of the division that issued permits (i.e., the Permit Section, Plumbing Section, Mechanical Section, and Electrical Section). This made it impractical for the division management to implement accounting for the disposition of all permit applications entered into the system as a control procedure to analyze the completeness of cash receipts reporting.
3. In the Housing Conservation Section of the Building Division, the following opportunities for control improvements in the system used to process applications and generate Certificates of Inspection, which we previously noted in a report dated December 15, 1995, were not resolved. The Certificates of Inspection computer system:
  - a. Automatically assigned a sequential number to each certificate generated, but did not incorporate the control of assigning and making notation of the next sequentially available certificate number to the certificate application, as well as the resulting certificate (the same process used to number permits), to facilitate reconciliations of the certificates issued to records of supporting documentation.
  - b. Did not require a restricted access authorization entry by a supervisor or manager of the processing clerk in order to void a computer-assigned certificate number

As a result, the Building Division may have incurred an increased risk that Certificates of Inspection could be improperly issued without being detected, resulting in losses of revenue to the City and circumvention of the intent of the Housing Conservation District program.

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- B. The Plumbing Section of the Building Division enters the results from required annual tests of plumbing backflow devices into the section's DataFlex code enforcement information data base system. The tests are performed by independent certified testers who record the results on standardized report forms provided by the Plumbing Section and send the reports back to the Plumbing Section. The Building Division charges a fee of \$35 for each annual test report processed.

We were informed that some of the device testers prepay the \$35 fee when they obtain the Backflow Test Report cards. The fees are collected by the Plumbing Section clerical staff, who turn them over to the Cashier's Section. The clerical staff records prepaid Test Report fees in a notebook to be credited against the fees due when the completed test reports are received for recording. The report forms are not pre-numbered and the Backflow Test Report fees charged are not recorded in DataFlex system.

In order to provide reasonable assurance that potentially fee-generating printed documents are not issued without the appropriate fees being collected, accurately recorded, and deposited intact; all such documents should be pre-numbered, used in sequence, and have a regular accounting made of their disposition by someone not involved in issuing the documents or collecting the fees for permits or certificates of inspection for which the appropriate fees have not been collected and properly reported.

Due to the absence of these system controls, there was an increased risk that fee-generating documents may be improperly generated and issued without being readily detected.

**Recommendations**

- A. We recommend the Building Division management request that the City's Information Technology Systems Agency (ITSA) revise the division's permit/inspection and HCD Certificate of Inspection information systems to:
1. Include controls that will prevent, and/or provide timely and conspicuous notation of, changes to application data fields of previously issued permits, which could be used to fabricate and issue an unauthorized permit.

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2. Include controls requiring:
    - a. the assignment and notation of the next sequentially available HCD Certificate of Inspection number to the subject application record as a necessary condition for the generation of a certificate.
    - b. a restricted authorization entry to the HCD-COI computer system, by a supervisor or manager of the processing clerk, in order to void an computer-assigned certificate number
  3. If possible, assign application/permit numbers so that they have separate sequence ranges within the respective sections of the division that issue permits, and that the disposition (e.g., fee paid and permit issued, fee paid but not issued, permit issued without charge, application abandoned or cancelled, etc.) is clearly indicated on available reports of each section's application activity. Those reports, and comparable reports generated by the HCD-COI system, should be regularly monitored by someone who is independent of issuing permits or certificates or receiving customer payments to reasonably ensure a full accounting for all applications processed by each section.
- B. We also recommend the Building Division make one of the following Plumbing Section procedure changes:
1. Begin using pre-numbered Backflow Test Report forms, keeping a control log or duplicate file copies to identify the numbers of all issued forms. The disposition of all issued and non-issued forms should be regularly accounted for by someone not involved in issuing the documents or collecting the fees.
  2. Inquire if the City's Information Systems Technology Agency (ITSA) can modify the division's permit information system to generate, and automatically assign uniquely sequential numbers to the Backflow Test Report forms, retaining a permanent record in the system of each form generated and issued; including test form number, date, name of the purchaser, and fee amount charged. If so, daily activity reports should be available from the system listing all test report forms.

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1. **Continued...**

Those activity reports should be regularly monitored by someone who is independent of issuing the test report forms or receiving customer payments to reasonably ensure all test report form numbers are accounted for.

**Management's Response**

*The Building Division will make a formal request to IT to make the above modifications to our existing computerized permit system. The Building Division will order pre-numbered Back Flow Test Report forms while continuing the present system until such time IT makes the requested modifications.*

2. **Opportunities to Improve Monitoring of Cash Receipts**

We noted that the division's procedures for issuance of permits and certificates of inspection, and handling of resulting cash receipts did not include procedures in place to reconcile any of their fee revenues to the corresponding account totals of daily cash receipt and deposit records. Regular reconciliation of revenue totals per fee category on daily business transaction records to actual cash receipts is an important control to provide reasonable assurance that all fee payments obtained from revenue-generating transactions are accurately recorded, deposited, and reported. Such reconciliations should be performed by someone independent of conducting, or receiving payments for the revenue-generating transactions.

Failure to reconcile transaction fee revenues to resulting cash receipts may have increased the division's risk that irregularities or errors could occur in recording and reporting those revenues and would not be detected within a timely period. Division management indicated the division did not have available administrative personnel or supervisory personnel who were independent of the revenue-generating transactions to perform the reconciliation.

After we discussed the matter with the division's management, the Building Division implemented a daily reconciliation procedure which was performed by the Permit Section Supervisor\*, using detailed daily activity reports, generated from the division's DataFlex inspection and permit information system. Fee totals of major permit classifications (e.g., Building, Occupancy, Demolition, Electrical, Plumbing, and Mechanical) from reports of Permits Issued and reports of open Applications (i.e., fees collected but permits not yet issued); and of amounts charged to customers

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**2. Continued...**

submitting applications for Housing Conservation District Certificates of Inspection, from daily check register reports generated by DataFlex for the HCD Section; were compared to the applicable account totals from:

- The Cashier's Cash Receipt forms prepared for each fee payment received.
- The division's daily cash register summary tape.
- The Receipt Coding Form submitted with the daily deposit to the treasurer's Office.

We reviewed a small sample of the daily reconciliations the Permit Section Supervisor had performed and found that they successfully reconciled the total reported fees for each included type of transaction to the applicable account totals of cash receipt and deposit records.

Implementing a daily reconciliation process was an essential step toward providing adequate controls over fee-generated cash receipts. However, we noted some opportunities for improvement of the reconciliation process:

- A. The DataFlex system reports did not include the following types of revenue transactions:
  1. Payments received from contractors for electrical permit fees billed by the Electrical Section after completion of final inspections on major applicable electric work projects. This absence, in combination with the Building Division's lack of a computer-based accounts receivable system, made it impractical to include Electrical Permits in the daily reconciliation process.
  2. The DataFlex system did not include payments received for the Plumbing Section's recording of results from required annual tests of plumbing backflow devices.
- B. The Building Division did not reconcile their cash receipt records to applicable revenue accounts in the City's monthly General Ledger reports. Failure to reconcile to the General Ledger increased the risk that money received and deposited would not be properly credited to the division's applicable revenue accounts, and that such errors would not be detected and corrected in a timely manner.

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**2. Continued...**

- C. We also noted that the Permit Section Supervisor is authorized to issue permits, and also acts as the emergency cashier. Therefore, the Supervisor is not independent of the permit issuance or cash receipt functions.

**Recommendations:**

As soon as budgetary conditions allow, the efficiency and effectiveness of Building Division's internal accounting controls would benefit from upgrading to a database system that would also collect any relevant financial transaction data associated with operational information entries, and generate applicable analytical reports for management review. In the meantime, we recommend the Building Division management:

- A. Make changes to current fee transaction recordkeeping procedures, as needed, to expand the reconciliation process to all revenues collected by the division. Those changes should include the following:
1. Either request that the City's Information Systems Technology Agency (ITSA) revise the division's permit information system to include individual and summary data of Electrical Permit fees billed to contractors, or implement a computer-based accounts receivable system that will provide the same information. Use the resulting fee collections transactions totals to reconcile to the Electrical Permit account total in daily cash receipt and deposit records.
  2. Inquire if ITSA or an alternative resource can establish an automated system to record, summarize, and provide daily activity reports on all Backflow Test Report fee transactions. (See Report Observation # 1.) Use the resulting fee collections transactions totals to reconcile to the Backflow Test Report account total in daily cash receipt and deposit records.
- B. If possible, have the daily reconciliation performed by someone who is independent of issuing, or receiving payments for permits or Certificate of Inspection. At minimum:
1. Ensure that the person performing the reconciliation is not involved in both issuing and receiving payment for revenue-producing documents.

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2. Ensure that samples of the daily reconciliations are frequently reviewed for accuracy and completeness by someone who is independent of issuing, or receiving payments for revenue-producing documents.
- C. Ensure that the monthly and cumulative revenue totals of cash receipts deposited with the City Treasurer (per Receipt Coding Forms) are reconciled to applicable revenue accounts in the City's monthly G/L reports.

**Management's Response**

*The recommendation to expand the daily reconciliation process to all revenues collected includes:*

- A. (1) Implementation of a computer based accounts receivable system for Electrical Permit fees billed to contractors. *The Building Division will make a formal request to IT for this upgrade.*
- (2) Inclusion of revenues and prepaid revenues from recording of Back Flow Test Reports in the reconciliation. *The Building Division will include this activity when IT makes the requested modifications indicated in Recommendation # 1E above.*
- B. Regular independent reviews of the daily reconciliations. *The Building Division's Permit Supervisor has been conducting daily reconciliations since the suggestion was first made. Increased supervisory reviews will also be attempted by the Trades Section for Mechanical, Electrical and Plumbing permit fees. Building Division management will designate a person independent of issuing, or receiving payments for revenue-producing documents to review random samples of the daily reconciliations.*
- C. Ensuring that the monthly and cumulative revenue totals of cash receipts deposited with the City Treasurer are reconciled to the City's monthly General Ledger reports. *The Building Division will assign a staff member to perform this reconciliation.*



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**3. Opportunities to Improve Segregation of Duties**

Accounting principles recommend segregation of duties if a single person performs two or more incompatible functions (for example: billing, receiving payments, and recording cash receipts entries). If circumstances such as limited personnel prevent proper segregation, compensating controls should be emphasized. Failure to segregate incompatible duties, or to implement compensating controls when such separation of duties is not possible, increases the risk that errors or misappropriations of assets may occur and not be detected in a timely manner.

We noted the following opportunities to improve segregation of duties or implement compensating controls:

- A. The Building Division personnel responsible for opening the mail containing checks or money orders submitted in payment of fees, either in advance with certain permit or certificate applications (e.g., Plumbing Permits, Electrical Permits for Ameren UE re-connections, Housing Conservation District Certificates of Inspection), or in payment of invoices for Electrical Permits billed after inspection, performed other duties that were incompatible with directly receiving mailed payments:
  - 1. The clerks who opened the mail in the Plumbing and Electrical Sections were also responsible for issuing the respective permits, and one of the two Electrical Section clerks was responsible for billing electrical contractors for permit fees calculated after final inspections of work on subject projects.
  - 2. The Building Division cashiers, who were responsible for balancing, depositing and reporting daily cash receipts, also opened the mail for Housing Conservation District, obtain, and log fee payments submitted with applications for Certificates of Inspection.
- B. The Permit Section Supervisor, who could make entries to, and issue various building permits from the division's DataFlex permit information system, recently assumed the previously unmet responsibility for reconciling each daily fee entry total per permit classification in the system (Building, Occupancy, Electrical, etc.) to the corresponding G/L account total from the Cashier's Cash Receipts included in the day's deposit to the Treasurer's Office. In addition, the supervisor functioned as a relief cashier when neither of the regular cashiers was available. Thus, the supervisor performed an intended control function over activities in which the supervisor was a participant.

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**3. Continued...**

Building Division management indicated there were not a sufficient number of staff members to segregate all incompatible duties.

**Recommendations:**

We recommend the Building Division management:

- A. Assign the function of opening, and obtaining payments from the mail to someone who is independent of following incompatible functions:
  - 1. Issuing, or billing for permits or certificates.
  - 2. Balancing, and preparing deposits of cash receipts.
- B. If no one independent of the permit issuance and cash receipt functions is available to perform the reconciliation of fees per issuance transaction totals to subsequent cash receipt and deposit records, ensure that the reconciliations and supporting records are regularly reviewed on a sample basis for adequacy and accuracy by a person independent of permit issuance and receipt of cash.

**Management's Response**

*Segregation of duties considerations always comes down to available labor and best use of that labor. The Building Division will review the possibility of assigning a Secretary I the task of opening the mail for the Cashier's Section. Given our current labor, the Building Division is not in a position to replace the Permit Supervisor as the backup cashier. In our judgment, the City faces a greater risk of losing money and customers if we have a less experienced and or less talented back up for the cashiers.*

**4. Opportunity to Enhance Fee Collection Efficiency**

Revenue from permit fees is used to partially defray the division's direct and related administrative costs of conducting the inspections needed to ensure compliance with building safety codes. Collecting fees in advance of incurring those costs, as is the case with most permits issued by the Building Division, would help reduce the strain on City's cash flows, as well as the risk that some fees might not be collected.

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**4. Continued...**

The Building Division Electrical Section issues the electrical permits for most types of jobs to the contractor applicants before collecting the permit fees. They determine the total permit costs and bill the contractors after they have inspected all work in the projects covered by the permits. The total fees due for an electrical permit issued could vary from the amount estimated at the time the permit application is submitted, depending on the actual number and/or size of outlets, fixtures, and various service equipment items the electrical inspectors have to inspect at the project site.

Section E113-1 of City Ordinance #65020, which established the City's current Electrical Code, allows the use of monthly billing to collect the prescribed inspection fees from the parties responsible for the work covered by the electrical permits. The Electrical Section elected to use monthly contractor billings to avoid having to make subsequent adjustments to fees received upon issuance of the permits. We noted at least two disadvantages of their collection procedures:

- A. The supervisor indicated there was a backlog of final inspections that had to be performed to determine total fee costs so that billing invoices could be prepared. He indicated this was largely due to delays in receiving notice from electrical contractors that work on the subject projects has been completed, which, in turn required additional follow-up efforts by the assigned inspectors.

The delays in billing and collecting the inspection fees applicable to issued permits negatively affect the City's cash flow status and increase the risk that the Division may not be able to collect all of the fees due. Based on available information as of early March, 2004, the Electrical Section had an estimated \$240,000 in anticipated permit fees for which billings were yet to be issued, pending completion, and reporting the results of final inspections of the subject projects.

- B. The Building Division did not have an automated billing and accounts receivable system. Invoicing and A/R Ledger posting were done manually. Also, we noted that the manual invoices indicated the month in which the billed inspections were performed, but did not indicate an invoice issue date. The management indicated The Building Division had not found an affordable billing and accounts receivable system that would suit the requirements of the Electrical Section.

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Manually preparing invoices and maintaining a manual Accounts Receivable Ledger is an inefficient use of the responsible clerk's time, and increases the risk that posting errors could occur but not be readily detected and corrected. The \$25 late payment charge established by City Ordinance #65020, is payable for invoices not paid within "60 days after receipt of the invoice". It would be very difficult at best to prove when a customer actually received an invoice, and the absence of a billing date further obscures determining the cutoff date to receive payment without applying the penalty.

**Recommendations:**

We recommend the Building Division management:

- A. Strongly consider changing their fee collection policy for electrical permits to reduce the collection risk. (e.g., collecting a conditional fee based on the submitted electrical plans before issuing the permit). Collections might be further expedited by using an "escrow account" system, similar to that used by the St. Louis County Electrical Permits Section.
- B. If the division continues the practice of billing for permits on major electrical projects after the final inspection is completed:
  - 1. Continue efforts to secure and implement a suitable automated billing and accounts receivable system. An Excel spreadsheet could be used to automate the Accounts Receivable Ledger if a full billing system is not readily available. Also, consider establishing a computer-based tracking system into which inspectors could enter the dates and results of interim inspections or other activities performed to determine the progress and code compliance status of projects covered by issued electrical permits.
  - 2. Ensure that the actual billing date is included on each monthly invoice sent to the electrical contractors. Also, consider revising the cutoff for paying without incurring a late charge. The period for payment without a penalty should start at the invoice date, and management might want to consider reducing the grace period to thirty (30) days.

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**Management's Response**

*The recommendation is to establish an "escrow account system" similar to that used by St. Louis County Electrical Permits Section. Within the Building Division there is almost universal acknowledgement that obtaining fees up front via escrow accounts is preferable to our current system. The Building Division will make an official request to IT to develop an automated billing and accounts receivable system capable of establishing escrow accounts for contractors. Rather than wait for this upgrade, the Building Division will explore over-the-counter software packages and may attempt to establish escrow accounts utilizing Excel spreadsheets.*

**5. Opportunities to Enhance Compliance with Permit Requirements**

Laws such as the City Building Code Ordinances (#'s 65204, 64771, and 65925), and the Electrical Code Ordinance (# 63620), which were enacted to protect public safety; also authorized the City's Building Division to collect user fees (such as building permit fees and electrical permit and inspection fees) to partially alleviate the ongoing costs of determining and enforcing compliance with those laws. Therefore, management should seek to implement any reasonable controls to more completely identify parties who are subject to compliance with inspection and permit requirements and payment of the applicable fees.

We noted one situation that may offer an opportunity to improve permit compliance. There was no apparent formalized use of third party information sources (e.g., equipment suppliers, utility companies, rival contractors, etc.) to alert the division's Trades Inspection Sections of electrical, plumbing, or mechanical work projects subject to inspection for City code compliance if those projects are not disclosed through the regular permit application process, or random discovery by disclosure to inspectors or support staff.

**Recommendation**

We recommend Building Division management explore any reasonable possibilities of obtaining independent information on subject electrical, plumbing, and mechanical installation projects from sources such as equipment suppliers, utility companies, and rival contractors.

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**Management's Response**

*The recommendation is to formalize use of third party information sources (e.g., equipment suppliers, utility companies, rival contractors) to alert the Trades Section of construction without permits. The Building Division will examine this recommendation with a view of implementing this recommendation.*

**6. Opportunities to Enhance Supervisory Review**

In order to provide reasonable assurance of the reliability of the division's financial recordkeeping, supervisory reviews should be performed at least periodically to verify the accuracy of financial information entries made to, and documents generated by the internal recordkeeping systems. Building Division written procedures did not indicate, and we noted no evidence that supervisory reviews were performed over the following revenue-related functions:

1. Entry of permit application data and payment transactions into the division's DataFlex inspection and permit information system.
2. Preparation and mailing of invoices to electrical contractors for collection of billed-after inspection electrical permit fees.

The absence of regular supervisory reviews increases the risk that errors or irregularities affecting the division's revenues could be made without being detected and corrected in a timely manner. Section Supervisors we interviewed indicated time conflicts with other duties was the primary reason for the lack of supervisory reviews.

**Recommendations**

We recommend that the Building Division management develop and implement procedures to have applicable supervisors periodically:

1. Check samples of the fee amounts entered into the DataFlex application records and the corresponding Cashier's Cash Receipt tickets for appropriateness and agreement.
2. If the division continues the practice of billing for permits on major electrical projects after the final inspection is completed, check samples of invoices and

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subsequent postings to the Electrical Section Accounts Receivable Ledger for accuracy.

All supervisory reviews should be documented with the results (verifying the accuracy of, or noting errors and corrections of the sampled transactions), the reviewer's name or initials, and the date of review.

**Management's Response**

*The Building Division will examine how best to improve supervisory reviews, while still maintaining current production levels. We will proceed with the view of implementing recommendations to the best of our ability.*

**7. Opportunity to Develop Written Policies and Procedures**

The Building Division did not have written policies and procedures in place for the following revenue-related activities:

1. Issuance of occupancy permits and collection of applicable fees.
2. Issuance of demolition permits and collection of applicable fees.
3. Issuance of Housing Conservation District Certificates of Inspection and collection of applicable fees.
4. Reconciliation of fees charged for permits and Certificates of Inspection to deposited cash receipts.
5. Follow-up activities performed by Housing Conservation District Program building inspectors to determine occupancy status of housing units listed on connection and turn-on reports from utility companies.
6. Cashiers' acceptance and cash register entry of fee payments obtained from customers or Building Division permit and inspection sections' clerical staffs.

Written policies and procedures assist in ensuring that procedures and job functions are:

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- Effectively communicated to and understood by staff.
- Approved by management.
- Consistently performed in accordance with management goals and objectives.

They also provide a basis for training and cross training of new and current employees and provide a basis for the development of performance standards and measures.

The lack of written policies and procedures for any important process increases the risk that control procedures for that process will not be effective or may be overridden, employees will not be effectively trained and appropriate performance standards and measures may not be developed.

**Recommendation**

We recommend that the Building Division management develop and/or maintain written policies and procedures for each of the five (5) activities noted above, and all other significant revenue-related functions. The policies and procedures should be:

- Approved by the Appointing Authority and dated.
- Formally communicated to the staff and the communication is documented.
- Reviewed and updated periodically.

**Management's Response**

*The Building Division will proceed to implement this recommendation by including these written procedures within already developed Section Policies and Procedure Manuals.*

**8. Inadequate Retention Period for Source Documents (Repeated)**

The Building Division's retention period for Certificate of Inspection applications, and their subsequent inspection reports was not in compliance with the requirements of the City's general audit documentation standards or the Section 110.7 of City Ordinance #60664. Source documents supporting entries to the City's General Ledger should be retained, at a minimum, until the public audit of the City for the



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affected fiscal year has been completed. Also, Section 110.7 of City Ordinance #60664 requires official records of applications for permits or certificates to be kept for as long as the building or condition to which they relate exists.

The printed Housing Conservation District (HCD) Certificate of Inspection applications, and their subsequent inspection reports, both of which are signed by the performing inspector, are discarded three months after issuance of the certificate. Although the application data is retained in the division's computer system; no copies of the signed documents are kept, either on microfilm, or scanned images in the City's electronic document retrieval system files. The HCD Section's Clerical Supervisor indicated the high volume of Certificates of Inspection and the small number (2) of file area clerks made longer storage alternatives for the source documents impractical.

**Recommendation**

We recommend the management of the Building Division ensure that each Certificate of Inspection application and related inspection reports are retained in paper or electronic format:

- until the certificate is no longer in effect, or
- until the public audit of the City for the affected fiscal year has been completed;

whichever occurs last. Offsite storage could be utilized, if necessary, to accomplish, this end.

**Management's Response**

*Audit findings claim an insufficient retention period for COI applications and their subsequent inspection reports. It is the position of the Building Division that the above-mentioned retention period was dictated by our IT system's capability and by City Counselor's Office recommendations. The Building Division will ask the City Counselor to re-examine their position on this matter and the Building Division will follow their recommendation. If additional retention is required, we will make a formal request to IT to develop the required storage capability.*